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Slidell Memorial Hospital

***Management's Discussion and Analysis,
Consolidated Financial Statements, and
Additional Information as of and for the Years
Ended December 31, 2005 and 2004, and
Independent Auditors' Reports***

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 6-7-06

SLIDELL MEMORIAL HOSPITAL

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of St. Tammany Parish Hospital Service District No. 2's (Slidell Memorial Hospital or "the Hospital") annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal year that ended on December 31, 2005. This should be read in conjunction with the financial statements in this report.

HURRICANE KATRINA

The western eye of Hurricane Katrina passed over Slidell, LA on the morning of Monday, August 29, 2005. On Saturday, August 27, the Parish President ordered a mandatory evacuation. Hospital storm team staffing was activated on Saturday afternoon in accordance with the facility disaster plan policy. The SMH storm team provides adequate staffing for two 12-hour shifts to care for patients and operate support services. Based upon computer projections of likely storm surge and the fact Hurricane Katrina was a category 5 hurricane at decision-making time, Slidell Memorial Hospital discharged or transferred all but 12 patients until the arrival of tropical force storm conditions. In the interest of patient and employee safety the evacuation operations were terminated. Late Sunday afternoon SMH started taking on water from wind driven rain and incurring wind related damage as well. The hospital curtailed operations until the damage could be mitigated and a safe environment could be established. The hospital re-opened Monday mid-afternoon for new patients.

Although the hospital re-opened to provide service to the community, substantial damage was incurred to various areas of the hospital impairing the ability to perform complete patient services. Furthermore, the hospital lost public electricity, water and communications. The hospital operated at limited capability using emergency generators and water from a well on hospital property. SMH Founder's Building was the search and rescue triage station for the lower Slidell flood area. SMH employees and medical staff worked in the triage area with portable generators and no air conditioning throughout the week following the hurricane. SMH provided vaccinations to over 40,000 patients in the weeks following the storm.

In the post Katrina environment, hospitals in the region are challenged by a number of factors including a dramatic increase in uninsured patients, higher wages associated with workforce shortages in the disaster area and increased lengths of stay due to shortages of nursing homes and other post acute options including the fact approximately 5,000 homes were destroyed in the Slidell area leaving many patients with no where to go. The State of Louisiana's policies regarding uninsured patient care fundamentally fully funds the Charity Hospital system and provides no funding to non-state hospitals such as SMH that provide care to the uninsured. Prior to Katrina the State program did not fund over 50% of the uninsured care provided in St. Tammany Parish. Post Katrina, with the closure of Charity Hospital in New Orleans, non-state hospitals in St. Tammany Parish are providing over 80% of the uninsured care.

Management has worked with FEMA to recoup substantial disaster related expenses of over \$1.1 million. Management continues to work with FEMA on outstanding amounts due for unreimbursed damage related to Katrina. Management worked with the Board of Commissioners to receive a \$17.5 million FEMA Community Disaster Loan (CDL) in early 2006. The CDL will fund payroll and labor related costs during these uncertain times offsetting the negative cash flows resulting from the factors described above.

FINANCIAL HIGHLIGHTS

Net patient service revenue increased \$2.1 million or 2% from prior year due primarily to 0.7% growth in acute admissions and a 6% across-the-board price increase instituted on July 1, 2005. Operating expenses increased \$5.4 million or 6% from prior year due primarily to: (1) average labor force wage increase of 3% or \$1.1 million, (2) increased costs of operating room and cath lab implantable devices in the amount of \$1.0 million, (3) \$0.9 million investment in additional bedside nurse staffing ratios, (4) 38% growth in chemotherapy services resulting in \$0.9 million pharmacy cost increase as patients move from the physician office setting to the hospital for these services due to significant decreases in reimbursement for chemo infusion, (5) \$0.7 million contract labor increase and (6) paid time off conversion related costs of approximately \$0.5 million. As a result of storm related events and other operating events described above, the Hospital experienced a decrease in operating income of \$2,372,000 and a decrease in the excess of revenues over expenses of \$849,000 as compared to the fiscal year 2004.

The Hospital's total net assets increased by \$2.8 million or 7%, from the prior year. This results from the recognition of revenue in excess of expenses for the year of \$2.8 million. The assets of the Hospital exceeded liabilities at the close of the 2005 fiscal year by \$42 million. Of this amount, \$23 million (unrestricted net assets) may be used to meet ongoing obligations to the Hospital District's patients and creditors, and \$16 million is invested in capital assets, net of related debt.

2004 was the first full year of operations for the new competing 58 bed MedCath physician joint venture cardiology carve out facility. Management had presented a best case, expected case and worst case impact analysis to the Board of Commissioners. The impact on cardiology volumes proved to be close to the expected case scenario. The actual cardiology impact was within 2% of the sensitivity expected case scenario.

On October 4th, 2003 the voters of the service district passed a property tax to fund a \$22.45 million general obligation bond issue refinancing all three of the hospital revenue bond issues. The cash flow improvements associated with the general obligation issue did not manifest until the actual sale of the bonds during 2004. On March 31st, 2004 the hospital closed a refinancing of the first \$8.0 million of the 1994 bonds. Due to certain laws governing tax exempt bonds, the remaining general obligation bonds could not be sold until August 2004. By issuing general obligation bonds funded by property tax collections, the hospital's operating cash flow is relieved of bond-related debt service requirements. As a result of the general obligation issues, management anticipates an additional \$5.5 million per year in improved cash flow in 2005 and thereafter. Management anticipates using the improved cash flow to rebuild cash reserves and invest in hospital infrastructure and equipment.

In June 2005 after a public bid process, the hospital borrowed \$10 million from Iberia Bank with a 10 year term. These funds were earmarked for major facility upgrades such as the \$4.5 million renovation/reconstruction of the surgical ICU and creation of a new private cardiology unit on the second floor of the hospital. This unit is expected to open in July 2006. The balance is expected to be expended for similar strategic initiatives during 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four components – the Management's Discussion and Analysis of Financial Condition and Operating Results (this section), the Independent Auditors' Report, the Consolidated Financial Statements, and Supplementary Information.

The *Consolidated Financial Statements* of Slidell Memorial Hospital report the consolidated financial position of the Hospital and the consolidated results of its operations and its cash flows. The consolidated financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about the Hospital's activities.

The *Consolidated Balance Sheet* includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities) for both the current year and the prior year. It also provides the basis for evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the *Consolidated Statement of Revenues, Expenses, and Changes in Net Assets*. This statement measures the performance of the Hospital's operations over the past two years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources.

The primary purpose of the *Consolidated Statement of Cash Flows* is to provide information about the Hospital's cash from operations, investing, and financing activities. The cash flow statement outlines where the cash comes from, what the cash is used for, and the change in the cash balance during the reporting period.

The annual report also includes *Notes to the Consolidated Financial Statements* that are essential to gain a full understanding of the data provided in the consolidated financial statements. The notes to the consolidated financial statements can be found immediately following the basic financial statements in this report.

Following the notes to the consolidated financial statements is a section containing supplementary information that further explains and supports the information reported in the consolidated financial statements. This section includes optional schedules showing Gross Revenue and Expenses by Cost center as well as statistical information.

FINANCIAL ANALYSIS OF THE HOSPITAL

The consolidated balance sheet and the consolidated statement of revenue, expenses, and changes in net assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or improvements, as well as decreases or declines in the net assets, are one indicator of the financial state of the Hospital. Other non-financial factors that should also be considered include changes in economic conditions (including uninsured and working poor) and population growth.

Net Assets

A summary of the Hospital's balance sheets is presented in the following table:

Condensed Consolidated Balance Sheets (In Thousands)

	Fiscal Year 2005	Fiscal Year 2004	Dollar Change	Total % Change
Current and other assets	\$ 49,410	\$ 41,281	\$ 8,129	20 %
Capital assets	<u>46,775</u>	<u>41,839</u>	<u>4,936</u>	<u>12 %</u>
Total assets	<u>\$ 96,185</u>	<u>\$ 83,120</u>	<u>\$ 13,065</u>	<u>16 %</u>
Long-term debt outstanding	\$ 37,850	\$ 30,877	\$ 6,973	23 %
Other liabilities	<u>16,621</u>	<u>13,371</u>	<u>3,250</u>	<u>24 %</u>
Total liabilities	<u>\$ 54,471</u>	<u>\$ 44,248</u>	<u>\$ 10,223</u>	<u>23 %</u>
Invested in capital assets, net of related debt	\$ 15,917	\$ 16,177	\$ (260)	(2)%
Restricted	2,383	2,100	283	13 %
Unrestricted	<u>23,414</u>	<u>20,595</u>	<u>2,819</u>	<u>14 %</u>
Total net assets	<u>\$ 41,714</u>	<u>\$ 38,872</u>	<u>\$ 2,842</u>	<u>7 %</u>

Current and other assets increased 20% primarily associated with the \$8.8 million unexpended portion of the \$10.0 million Iberia loan proceeds. Capital assets increased 12% reflecting equipment upgrades such as the \$3.7 million Varian Linear Accelerator placed in service May 2005. Long term debt increased 23% primarily due to the \$10 million loan with Iberia Bank. Other liabilities increased 24% as a result of: (1) \$0.8 million increase in vendor payables post Katrina as the hospital held onto cash when collections were severely impaired, (2) \$0.8 million increase third party contractual liability to Medicare related to a cash advance from the fiscal intermediary, and (3) \$0.4 million increase in employee vested accrued paid time off associated with the conversion from the previous vacation, holiday, sick plan, and (4) also due to increased current portion of long term debt associated with the Iberia loan. Unrestricted net assets increased \$2.8 million or 14%.

Summary of Revenue, Expenses, and Changes in Net Assets

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended December 31, 2005 and 2004:

Condensed Consolidated Statements of Revenue, Expenses, and Changes in Net Assets (In Thousands)

	Fiscal Year 2005	Fiscal Year 2004
Net patient service revenue	\$ 97,618	\$ 95,533
Other operating revenue excluding interest income	<u>2,373</u>	<u>2,149</u>
Total operating revenues	<u>99,991</u>	<u>97,682</u>
Operating expenses before depreciation/amortization	<u>92,064</u>	<u>86,668</u>
Earnings before interest depreciation and amortization (EBIDA)	<u>7,927</u>	<u>11,014</u>
Depreciation and amortization expense	<u>5,744</u>	<u>6,459</u>
Operating net income	2,183	4,555
Non-operating revenues (expenses):		
Interest income	750	342
Interest expense	(1,643)	(1,987)
Property tax revenue	1,552	2,100
Expenses associated with debt restructuring and tax referendum	<u> </u>	<u>(1,319)</u>
Revenues in excess of expenses	2,842	3,691
Total net assets - beginning of year	<u>38,872</u>	<u>35,181</u>
Total net assets - end of year	<u>\$ 41,714</u>	<u>\$ 38,872</u>

The following table represents the relative percentage of gross charges billed for patient services by payer for the fiscal years ended December 31, 2005 and 2004:

	Fiscal Year 2005	Fiscal Year 2004
Medicare	40.2 %	38.8 %
Medicaid	7.2 %	9.9 %
Managed care and commercial insurance	45.4 %	45.3 %
Uninsured	<u>7.2 %</u>	<u>6.0 %</u>
Total gross charges	<u>100.0 %</u>	<u>100.0 %</u>

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes the Hospital's Statements of Revenue, Expenses, and Changes in Net Assets between 2005 and 2004:

- During 2005, the Hospital had 8,379 inpatient admissions. This is a decrease of 0.3% from fiscal year 2004. Prior to Hurricane Katrina, SMH was on track for 6% growth in admissions with a favorable payer mix.
- Outpatient registrations were 62,421 in 2005. This is a decrease of 2.5% from fiscal year 2004. Again outpatient registrations were adversely impacted by Hurricane Katrina.
- Emergency registrations were 24,787 in 2005, which is within 50 patients of 2004. However, the number of uninsured emergency patients increased dramatically after Hurricane Katrina.
- Net patient service revenue increased \$2.1 million or 2.2% from prior year. Before the storm event, the hospital was on a significantly greater growth trend.
- Salaries and wages increased 12% primarily due to the following large items: (1) average labor force wage increase of 3% or \$1.1 million, (2) \$0.9 million investment in additional bedside nurse staffing ratios, (3) \$0.7 million contract labor cost increase, (4) paid time off conversion related costs of approximately \$0.5 million and (5) labor costs incurred associated with Hurricane Katrina.
- Supplies and materials increased approximately 13% compared to 2004 reflecting two primary large items: (1) increased costs of operating room and cath lab implantable devices in the amount of \$1.0 million, (2) 38% growth in chemotherapy services resulting in \$0.9 million pharmacy cost increase as patients move from the physician office setting to the hospital for these services due to significant decreases in physician reimbursement for chemotherapy infusion.
- Net non-operating expenses of \$1,319,000 were incurred in 2004 related to the Hospital's debt refinancing efforts. These include (1) revenue bond redemption premiums of \$437,000 and (2) accelerated amortization of \$882,000 in unamortized issuance cost of the revenue bonds refinanced with the general obligation bonds during 2004.

PERFORMANCE AGAINST BUDGET

	FY 2005 Budget	FY 2005 Actual	Favorable (Unfavorable) Variance
Revenues:			
Net patient service revenue	\$ 99,503	\$ 97,618	\$ (1,885)
Other operating revenue	2,314	2,373	59
Total revenues	<u>101,817</u>	<u>99,991</u>	<u>(1,826)</u>
Operating expenses:			
Salaries, wages and benefits	47,631	48,979	(1,348)
Supplies and other	31,846	32,173	(327)
Professional and contractual services	<u>10,832</u>	<u>10,912</u>	<u>(80)</u>
Total operating expenses before depr/amort	<u>90,309</u>	<u>92,064</u>	<u>(1,755)</u>
EBIDA	<u>11,508</u>	<u>7,927</u>	<u>(3,581)</u>
Interest income	358	750	392
Interest expense	(1,550)	(1,643)	(93)
Depreciation and amortization	(6,440)	(5,744)	696
Non-operating expenses, net	<u>1,394</u>	<u>1,552</u>	<u>158</u>
Excess of revenues over expenses	<u>5,270</u>	<u>2,842</u>	<u>(2,428)</u>
Increase (decrease) in net assets	<u>\$ 5,270</u>	<u>\$ 2,842</u>	<u>\$ (2,428)</u>

CAPITAL ASSETS

	FY 2005	FY 2004	Dollar Change	Percent Change
Land and land improvements	\$ 4,675	\$ 4,675	\$ -	- %
Building and leasehold improvements	63,989	62,207	1,782	3 %
Equipment	<u>55,994</u>	<u>47,966</u>	<u>8,028</u>	<u>17 %</u>
Subtotal	<u>124,658</u>	<u>114,848</u>	<u>9,810</u>	<u>9 %</u>
Less: Accumulated depreciation	<u>(77,883)</u>	<u>(73,009)</u>	<u>(4,874)</u>	<u>7 %</u>
Net capital assets	<u>\$ 46,775</u>	<u>\$ 41,839</u>	<u>\$ 4,936</u>	<u>12 %</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Hospital's Board and Management considered many factors when setting the fiscal year 2006 budget. Of primary importance in setting the 2006 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Post Hurricane Katrina challenges such as: (1) dramatic increases of uninsured patient loads, (2) Medicare length of stay due to loss of home and institutional discharge placement infrastructure, (3) work force shortage and resulting wage inflation, and (4) the stability of the workforce during the 2006 hurricane season.
- Increased competition in the marketplace in the form of physician investor carve out hospitals including a new surgical specialty hospital that opened in November 2005 designed to cherry pick profitable patients.
- Medicare reimbursement changes and reductions
- Medicaid reimbursement reductions
- Cost of implantable devices without adequate reimbursement
- Cost of drugs without adequate reimbursement
- Access to free cash flow for needed replacement investment
- Increased compliance costs due to HIPAA regulations

CONTACTING THE HOSPITAL FINANCIAL MANAGER

This Financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances. If you have any questions about this report or need additional financial information, please contact the Chief Financial Officer, Slidell Memorial Hospital, 1001 Gause Blvd. Slidell, LA 70458.

INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Commissioners of
St. Tammany Parish Hospital Service
District No. 2:

We have audited the accompanying consolidated balance sheets of St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital) (the "Hospital") as of December 31, 2005 and 2004, and the related consolidated statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Slidell Memorial Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Slidell Memorial Hospital at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 8 is not a required part of the basic consolidated financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Slidell Memorial Hospital's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we do not express an opinion on it.

As discussed in Note 12 to the financial statements, Hurricane Katrina struck the greater New Orleans area on August 29, 2005 and impacted the Hospital and its operations.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2006, on our consideration of Slidell Memorial Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Deloitte & Touche LLP

March 30, 2006

SLIDELL MEMORIAL HOSPITAL

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,061,474	\$ 10,379,605
Patient accounts receivable, net of allowance for uncollectible accounts of \$7,502,807 in 2005 and \$7,908,488 in 2004, respectively	17,014,852	15,179,996
Assets whose use is limited—required for current liabilities	1,091,523	939,657
Inventories	2,136,240	1,971,553
Prepaid expenses and other receivables	3,108,503	1,115,242
Total current assets	<u>34,412,592</u>	<u>29,586,053</u>
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:		
By board or under agreements for capital improvements and debt service	14,437,747	11,524,273
By donors	34,288	29,185
By board designated for workers compensation claims	350,000	
Total assets whose use is limited or restricted	<u>14,822,035</u>	<u>11,553,458</u>
CAPITAL ASSETS:		
Land and improvements	4,675,583	4,675,583
Buildings	62,639,030	62,206,609
Equipment	55,993,373	47,965,563
Construction in process	1,349,805	
Less accumulated depreciation and amortization	(77,883,288)	(73,008,586)
Capital assets—net	<u>46,774,503</u>	<u>41,839,169</u>
OTHER ASSETS	<u>176,079</u>	<u>141,587</u>
TOTAL	<u>\$ 96,185,209</u>	<u>\$ 83,120,267</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Trade accounts payable	\$ 4,843,415	\$ 3,959,286
Salaries, wages, and benefits payable	1,545,538	1,314,382
Accrued vacation payable	1,835,702	1,397,126
Accrued interest and other expenses	2,746,313	2,946,671
Amounts due to third-party payors	2,129,803	1,368,575
Amounts due within one year on capital lease obligations	1,855,263	1,850,152
Amounts due within one year on bonds	750,000	365,000
Amounts due within one year on notes payable and hospital indebtedness	915,000	170,000
Total current liabilities	<u>16,621,034</u>	<u>13,371,192</u>
CAPITAL LEASE OBLIGATIONS—Less amounts due within one year	<u>6,879,955</u>	<u>8,241,879</u>
BONDS—Less amounts due within one year	<u>21,205,000</u>	<u>21,955,000</u>
NOTES PAYABLE—Less amounts due within one year	<u>9,765,000</u>	<u>680,000</u>
COMMITMENTS AND CONTINGENCIES (Notes 6 and 9)		
NET ASSETS:		
Invested in capital assets—net of related debt	15,917,042	16,177,138
Restricted for debt service and workers compensation	2,382,806	2,100,038
Unrestricted	23,414,372	20,595,020
Total net assets	<u>41,714,220</u>	<u>38,872,196</u>
TOTAL	<u>\$ 96,185,209</u>	<u>\$ 83,120,267</u>

See notes to consolidated financial statements.

SLIDELL MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
REVENUE:		
Net patient service revenue (Note 4)	\$ 97,618,168	\$ 95,533,078
Other revenue	<u>2,372,930</u>	<u>2,148,585</u>
Total revenue	<u>99,991,098</u>	<u>97,681,663</u>
OPERATING EXPENSES:		
Salaries and wages	39,942,036	35,553,138
Employee benefits	9,036,924	9,155,974
Supplies and materials	21,790,651	19,260,896
Other direct expenses	10,381,603	10,359,244
Professional fees	6,963,285	6,555,819
Purchased services	3,948,957	5,782,524
Depreciation and amortization	<u>5,744,443</u>	<u>6,458,995</u>
Total expenses	<u>97,807,899</u>	<u>93,126,590</u>
OPERATING INCOME	<u>2,183,199</u>	<u>4,555,073</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	749,921	341,620
Interest expense	(1,643,229)	(1,986,621)
Property tax revenue	1,552,133	2,100,000
Expenses related to debt restructuring and related referendums	<u></u>	<u>(1,318,829)</u>
Total nonoperating revenues (expenses)	<u>658,825</u>	<u>(863,830)</u>
INCREASE IN NET ASSETS	2,842,024	3,691,243
NET ASSETS—Beginning of year	<u>38,872,196</u>	<u>35,180,953</u>
NET ASSETS—End of year	<u>\$ 41,714,220</u>	<u>\$ 38,872,196</u>

See notes to consolidated financial statements.

SLIDELL MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
OPERATING ACTIVITIES:		
Cash received from patient services	\$ 96,544,540	\$ 98,018,229
Cash paid to or on behalf of employees	(48,309,228)	(44,253,179)
Cash paid for supplies and services	(43,244,476)	(42,797,384)
Cash received from FEMA	1,181,944	
Net cash provided by operating activities	<u>6,172,780</u>	<u>10,967,666</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(11,472,873)	(3,210,554)
Principal payments on long-term debt and capital lease obligations	(2,005,551)	(28,426,793)
Dedicated property tax revenue received	2,184,647	
Proceeds from issuance of bonds	10,000,000	22,320,000
Payment of deferred financing costs		(146,458)
Premium paid on advance refunding		(436,700)
Interest payments	(1,725,191)	(1,778,689)
Proceeds from sale of capital assets	141,280	336,445
Other—net		(148,254)
Net cash provided by (used in) capital and related financing activities	<u>(2,877,688)</u>	<u>(11,491,003)</u>
INVESTING ACTIVITIES:		
(Increase) decrease in assets whose use is limited or restricted	(3,420,443)	4,997,213
Interest earned on investments	807,220	368,585
Net cash (used in) provided by investing activities	<u>(2,613,223)</u>	<u>5,365,798</u>
INCREASE IN CASH AND CASH EQUIVALENTS	681,869	4,842,461
CASH AND CASH EQUIVALENTS—Beginning of year	10,379,605	5,537,144
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 11,061,474</u>	<u>\$ 10,379,605</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 2,183,199	\$ 4,555,073
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	5,744,443	6,458,995
Loss on sale of capital assets	41,249	61,577
Changes in operating assets and liabilities:		
Patient accounts receivable	(1,834,856)	2,070,326
Inventories and other operating assets	(2,157,948)	369,678
Accounts payable and accrued expenses	2,196,693	(2,547,983)
Net cash provided by operating activities	<u>\$ 6,172,780</u>	<u>\$ 10,967,666</u>

See notes to consolidated financial statements.

SLIDELL MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization—St. Tammany Parish Hospital Service District No. 2 (the “District”), d/b/a Slidell Memorial Hospital (the “Hospital”), is a nonprofit corporation organized as a political subdivision of the State of Louisiana as established in Act 180 of the 1984 Regular Session of the Legislature and as amended by Act 999 of the 1991 Regular Session of the Legislature, Act 570 of the 1992 Regular Session of the Legislature, Act 440 of the 1997 Regular Session of the Legislature, and Act 562 of the 2003 Regular Session of the Legislature. Act 562 created a nominating committee to solicit, interview, and make nominations for appointment to the Board of Commissioners. The legislation sets forth an appointing authority of the District, which is a cross-section of representatives of city, parish, and state government bodies. The appointing authority appoints the Board of Commissioners from the nominations put forth by the nominating committee. The St. Tammany Parish Hospital Service District No. 2 Board of Commissioners (the “Board”) is authorized to oversee the assets and govern the operations of the Hospital.

Principles of Consolidation—The consolidated financial statements include the accounts and transactions of the Hospital and its member organizations, Slidell Memorial Health Foundation, Inc. (“SMH Foundation”), SMH Physician Practice Services, Inc. (“Physician Practice Services”), and Slidell Radiation Center, Inc. (“SRC”). All material intercompany accounts and transactions have been eliminated in consolidation.

Basis of Accounting—The Hospital utilizes the accrual basis of accounting for proprietary funds. Under Governmental Accounting Standards Board Statement (“GASBS”) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the Hospital has elected not to apply Financial Accounting Standards Board (“FASB”) pronouncements issued after November 30, 1989.

Income Tax Status—The Hospital is exempt from federal income tax under both Section 115 of the Internal Revenue Code as a governmental entity and Section 501(a) as a hospital organization as described in Section 501(c)(3). The exemption from federal income taxes also extends to state income taxes. SMH Foundation has been designated as a not-for-profit organization described in Internal Revenue Code Section 501(c)(3) and is exempt from federal income taxation under Internal Revenue Code Section 501(a). Physician Practice Services and SRC are taxable not-for-profit corporations.

Net Patient Service Revenue and Related Receivables—Net patient service revenue and the related accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. The Hospital provides care to patients even though they may lack adequate insurance or may be covered under contractual arrangements that do not pay full charges. As a result, the Hospital is exposed to certain credit risks. The Hospital manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances. Beginning in 2005, provisions for bad debts are reported as offsets to net patient service revenues consistent with reporting practices for governmental entities. The statement of revenues, expenses and changes in net assets for 2004 has been restated to provide consistency in reporting between years (see Note 4).

Medicare and Medicaid Reimbursement Programs—The Hospital is reimbursed under the Medicare Prospective Payment System (“PPS”) for acute care inpatient services provided to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the Diagnosis Related Group (“DRG”) assigned to the patient. In addition, the Hospital is paid prospectively for Medicare inpatient capital costs based on the federal specific rate. The Hospital qualifies as a disproportionate share provider under the Medicare regulations. As such, the Hospital receives an additional payment for Medicare inpatients served. Except for Medicare disproportionate share reimbursement and Medicare bad debts, there is no retroactive settlement for inpatient costs under the Medicare inpatient prospective payment methodology.

The Hospital is paid a prospective per diem rate for Medicaid inpatients. The per diem rate is based on a peer grouping methodology which assigns a per diem rate to each hospital in the peer group.

Medicaid outpatient services (excluding ambulatory surgery and clinical lab), and Medicare bad debts are reimbursed on a cost basis. Outpatient services rendered to Medicare beneficiaries are reimbursed by the Outpatient Prospective Payment System (“OPPS”) which establishes a number of Ambulatory Payment Classifications (“APC”) for outpatient procedures in which the Hospital is paid a predetermined amount per procedure. Medicare and Medicaid outpatient clinical lab and Medicaid ambulatory surgery services are reimbursed based upon the respective fee schedules.

Retroactive cost settlements based upon annual cost reports are estimated for those programs subject to retroactive settlement and recorded in the consolidated financial statements. Final determination of retroactive cost settlements to be received under the Medicare and Medicaid regulations is subject to review by program representatives. The difference between a final settlement and an estimated settlement in any year is reported as an adjustment of net patient service revenue in the year the final settlement is made.

Cash and Cash Equivalents—Cash and cash equivalents are recorded at fair value. The Hospital reports short-term, highly liquid investments (that are both readily convertible to known amounts of cash and mature within three months or less from date of purchase) as cash equivalents, excluding amounts classified as assets whose use is limited or restricted on the consolidated balance sheets. As of December 31, 2005 and 2004, the Hospital’s cash, cash equivalents, and certificates of deposit were entirely insured or collateralized with securities held by its agent in the Hospital’s name.

Assets Whose Use is Limited or Restricted—Assets whose use is limited or restricted consists of investments reported at fair value with gains and losses included in the consolidated statements of revenue, expenses and changes in net assets.

Inventories—Inventories are valued at the lower of cost (first-in, first-out method) or market.

Capital Assets—Land, buildings, and equipment acquisitions are recorded at cost except for assets donated to the Hospital. Donated assets are recorded at the fair value of the assets at the date of donation. Depreciation of buildings and equipment is computed using the straight-line method in amounts sufficient to amortize the cost of these assets over their estimated useful lives.

Equipment held under capital lease obligations has been recorded at the present value of the minimum lease payments. Amortization of leased assets is included in depreciation and amortization expense.

Other Assets—Other assets consists of the unamortized portion of debt issuance costs. Cumulative amortization was \$16,970 and \$4,180 at December 31, 2005 and 2004, respectively.

Employee Health and Workers' Compensation Insurance—The Hospital is self-insured for hospitalization and workers' compensation claims. Estimated amounts for claims incurred but not reported are calculated based on claims experience and, together with unpaid claims, are included in accrued interest and other expenses on the consolidated balance sheets.

Statements of Revenue, Expenses, and Changes in Net Assets—All revenues and expenses directly related to the delivery of health care services are included in operating revenues and expenses in the statements of revenue, expenses and changes in net assets. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or investment income.

Property Tax Revenues—As a result of a voter referendum in 2003, the Hospital began receiving dedicated property tax revenues in 2004 in amounts sufficient to fund annual debt maturities of the general obligation bonds and related interest costs (see Note 7). Such revenues are considered nonoperating in the accompanying statements of revenue, expenses and changes in net assets. Unexpended property tax revenues are accumulated in a restricted fund and are used exclusively for debt service.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The determination of the allowance for uncollectible accounts receivable and amounts estimated to be recovered from third party payors are particularly sensitive estimates subject to change.

Net Assets—In accordance with Governmental Accounting Standards Board Statement ("GASBS") No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, net assets are classified into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- ***Invested in capital assets, net of related debt***—This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- ***Restricted***—This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- ***Unrestricted***—This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

2. ASSETS WHOSE USE IS LIMITED OR RESTRICTED

The terms of the Hospital's bond issues require certain funds to be maintained on deposit with the trustee. The funds on deposit with the trustee and funds designated by the Board for capital improvements as of December 31, 2005 and 2004, were as follows:

	2005	2004
Current assets—under bond indenture:		
Dedicated property tax revenue	<u>\$ 1,091,523</u>	<u>\$ 939,657</u>
Total	<u>\$ 1,091,523</u>	<u>\$ 939,657</u>
Noncurrent assets—under bond indenture:		
Dedicated property tax revenue	\$ 941,283	\$ 1,160,381
Funds held for facility improvements	8,817,898	
Equipment acquisition funds related to municipal leases	1,014,859	6,750,000
By board—designated for capital improvements	3,663,707	3,613,892
By board—designated for workers compensation claims	350,000	
By donors	<u>34,288</u>	<u>29,185</u>
Total	<u>\$ 14,822,035</u>	<u>\$ 11,553,458</u>

Statutes authorize the Hospital to invest in direct obligations of the U.S. Government, certificates of deposit of state banks and national banks having their principal office in the State of Louisiana, and any other federally insured investments, guaranteed investment contracts issued by a financial institution having one of the two highest rating categories published by Standard & Poor's or Moody's, and mutual or trust fund institutions registered with the Securities and Exchange Commission (provided the underlying investments of these funds meet certain restrictions). At December 31, 2005, the Hospital had investments in obligations of U.S. Agencies with a fair value of \$3,403,040. Such obligations mature between December 2007 and July, 2008 and carry a "AAA" credit rating from the applicable rating agencies. The Hospital manages the interest rate risk in the portfolio by keeping maturities under five years and adhering to the State's credit quality restrictions. Also included in assets whose use is limited is \$11,040,518 of cash deposits and money market investments which amounts were entirely covered by federal depository insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the Hospital's name.

During fiscal 2001, the Board granted management discretion to utilize for other operating purposes those funds designated for capital improvements. Management has continued to maintain these funds in a separate trust account and treat them as internally designated funds.

3. THIRD-PARTY PAYOR ARRANGEMENTS

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. During the years ended December 31, 2005 and 2004, approximately 47% and 49%, respectively, of the Hospital's gross patient service charges were derived from services provided to Medicare and Medicaid program beneficiaries. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have

been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Revenue derived from the Medicare program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the United States Department of Health and Human Services before settlement amounts become final. Revenue derived from the Medicaid program is subject to audit and adjustment and must be accepted by the State of Louisiana, Department of Health and Hospitals before the settlement amounts become final. The fiscal intermediary has completed its review of estimated Medicare settlements for fiscal years ended through December 31, 2002, and Medicaid settlements for fiscal years ended through December 31, 2000. Annually, management evaluates the recorded estimated settlements and adjusts these balances based upon the results of the intermediary's audit of filed cost reports and additional information becoming available. Although the fiscal intermediary has not completed its audits of the estimated settlements for the years ended December 31, 2003 through December 31, 2005, for Medicare and December 31, 2001 through December 31, 2005, for Medicaid, the Hospital does not anticipate significant adverse adjustments to the recorded settlements for those years.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and managed care organizations. The basis for payment to the Hospital under these arrangements includes prospectively determined daily rates and discounts from established charges.

4. NET PATIENT SERVICE REVENUE AND RESTATEMENT

Net patient service revenue for the years ended December 31, 2005 and 2004, was as follows:

	2005	2004
Gross patient service revenue:		
Medicare	\$ 149,888,434	\$ 134,175,013
Medicaid	26,715,435	34,291,142
Managed care/commercial	170,529,586	157,679,455
Self pay/uninsured	<u>26,925,541</u>	<u>20,729,665</u>
Total	374,058,996	346,875,275
Contractual adjustments	(250,246,334)	(231,929,433)
Charity care	(12,401,054)	\$ (9,145,789)
Provisions for bad debts	<u>(13,793,440)</u>	<u>(10,266,975)</u>
Total	<u>\$ 97,618,168</u>	<u>\$ 95,533,078</u>

In 2004 and prior years, the Hospital reported net patient service revenue before consideration of the provision for bad debts, which amount was reported as an operating expense consistent with reporting practices prevalent in the health care industry. During 2004, the American Institute of Certified Public Accountants issued guidance clarifying that the accounting standards promulgated by the Government Accounting Standards Board required that revenues be reported net of discounts and allowances and therefore, amounts previously reported separately as provision for bad debts should be reported as a component of net patient service revenue. The Hospital adopted this method of reporting in 2005 and restated the presentation of the 2004 consolidated statement of revenues, expenses and changes in net assets to reduce net patient revenue and operating expenses by \$10,266,975, the amount of the provision

for bad debts. This restatement had no effect on the operating income, balance sheet or cash flows of the Hospital.

5. COMMUNITY BENEFITS

As a community health care provider, the Hospital's stated mission is "To Improve the Quality of Life in our Community." As such, total revenue includes that revenue generated from direct patient care, rentals from various medical office buildings, and sundry revenue related to the operation of the Hospital and its member organizations.

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care provided during the years ended December 31, 2005 and 2004, measured at established rates, totaled \$12,401,054 and \$9,145,789 respectively; there were no government subsidies in either year.

In addition, the Hospital sponsors or participates in numerous activities to benefit the community. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. The Hospital has conducted a Community Health Assessment to identify health risks in the community. Through this research, the Hospital has developed wellness and prevention programs that target these high-risk areas for a healthier community.

Annually, the Hospital sponsors several health fairs and programs regarding such issues as diabetes, breast cancer, prostate cancer, smoking cessation, nutrition, exercise, cardiology, women's health, parenting skills, development topics, etc., to provide the community access to health-related information. Also, the Hospital provides health screening at no cost or a reduced cost to the community. Some health screenings include prostate cancer, cholesterol, colorectal, skin cancer, glucose, and thyroid screenings.

The Hospital encourages its employees to volunteer for charitable organizations and to participate in fund-raising activities and, in some cases, pays employees to perform public services such as health screenings. In addition, the Hospital aided various community service organizations through donations and sponsorships.

6. LEASES

The Hospital leases medical and administrative equipment under operating leases with terms that vary from month-to-month to five years. Total rental expense included in other direct expenses on the consolidated statements of revenue, expenses, and changes in net assets was \$1,183,412 and \$1,050,576 for the years ended December 31, 2005 and 2004, respectively.

The Hospital also leases medical equipment under lease agreements accounted for as capital lease obligations in accordance with Financial Accounting Standards Board Statement No. 13, *Accounting for Leases*. These capital lease obligations expire at various dates through 2010. The capital asset balances on the consolidated balance sheets include equipment under capital lease obligations of \$10,636,267 and \$4,934,374, less accumulated amortization of \$3,339,757 and \$2,192,139 at December 31, 2005 and 2004, respectively. In addition, equipment acquisition funds have been set aside in assets whose use is limited or restricted amounting to \$1,014,859 related to Louisiana municipal leases negotiated in late 2005 but unfunded at December 31, 2005. Such municipal leases are included in the capital leases set forth below. Such amounts are scheduled for expenditure in 2006. During the years ended December 31,

2005 and 2004, the Hospital entered into new capitalized leases amounting to approximately \$182,315 and \$9.45 million, respectively, for equipment purchases.

The future minimum lease payments at December 31, 2005, for noncancelable leases are as follows:

	Operating Leases	Capital Leases
2006	\$ 644,141	\$ 2,192,412
2007	326,060	2,111,634
2008	300,833	1,775,271
2009	275,535	1,341,968
2010	210,950	1,063,531
Thereafter		<u>1,250,749</u>
Total	<u>\$ 1,757,519</u>	9,735,565
Amounts representing imputed interest (interest rates range from 3.9% to 5.67%)		<u>1,000,347</u>
Present value of capital lease obligations (including \$1,855,263 classified as amounts due within one year)		<u>\$ 8,735,218</u>

The Hospital leases space to physicians through a combination of cancelable and noncancelable lease agreements. Rental income earned under these agreements was \$1,249,271 and \$1,261,300 for the years ended December 31, 2005 and 2004, respectively.

The future minimum lease payments to be received from noncancelable lease agreements at December 31, 2005, are as follows:

Years Ending December 31	Operating Leases
2006	\$ 1,402,136
2007	1,099,644
2008	924,684
2009	581,141
2010	424,649
Thereafter	<u>113,245</u>
Total	<u>\$4,545,499</u>

7. LONG-TERM DEBT

The details and balances of long-term debt at December 31, 2005 and 2004, are presented below:

	2005	2004
General Obligation Bonds, Series 2004A, described in detail below (\$290,000 due in 2006)	\$ 7,985,000	\$ 8,000,000
General Obligation Bonds, Series 2004B, described in detail below (\$425,000 due in 2006)	12,790,000	13,115,000
General Obligation Bonds, Series 2004C, described in detail below (\$35,000 due in 2006)	1,180,000	1,205,000
Hospital Indebtedness, Series 2005, described in detail below (\$745,000 due in 2006)	10,000,000	
Notes payable to physicians, 7% (\$170,000 due in 2006)	<u>680,000</u>	<u>850,000</u>
	32,635,000	23,170,000
Less amounts due within one year according to terms of debt instruments	<u>1,665,000</u>	<u>535,000</u>
Total	<u>\$ 30,970,000</u>	<u>\$ 22,635,000</u>

The following table for the year ended December 31, 2005, summarizes the changes in long-term debt:

Balance of long-term debt at December 31, 2004	\$ 23,170,000
Less repayment of bonds and notes payable	(535,000)
Add issuance of hospital indebtedness obligations	<u>10,000,000</u>
Balance of long-term debt at December 31, 2005	<u>\$ 32,635,000</u>

Refinancing—In October 2003, the voters of St. Tammany Parish approved a referendum authorizing the Hospital to issue up to \$22.45 million of general obligation bonds in 2004 which would be secured by the pledge of dedicated property tax millages set annually at rates sufficient to fund principal maturities and interest on the related bonds. The Hospital issued three series of general obligation bonds in 2004 to refinance the balances of 1994, 1996, and 1999 revenue bonds. In connection with the refinancing, the Hospital incurred a loss of \$1,318,829 consisting of redemption premiums of \$436,700 related to calling the revenue bonds prior to their original maturities and \$882,129 related to writing off the remaining balance of unamortized bond issuance costs which arose from the original issuance of the revenue bonds.

General Obligation Bonds—On March 31, 2004, the Hospital issued \$8 million in General Obligation Bonds with a interest rates ranging from 2% to 5% to advance refund \$9.24 million of outstanding Hospital Revenue Bonds, Series 1994. The net proceeds of \$7.9 million (after payment of underwriting fees, insurance, and other issuance costs) plus an additional \$1.99 million of existing sinking fund and debt service reserve monies were used to purchase U.S. government securities. Those securities were

deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the portion of the 1994 bonds until the bonds were advance refunded on October 4, 2004.

On July 29, 2004, the Hospital issued \$13.115 million in General Obligation Bonds with interest rates ranging from 4.125% to 6% to advance refund the remaining \$14.16 million of outstanding 1994 Revenue Bonds and all of the \$691,885 outstanding Hospital Revenue Bonds, Series 1996. The net proceeds of \$13 million (after payment of underwriting fees, insurance, and other issuance costs) plus an additional \$2.5 million of existing sinking fund and debt service reserve monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1994 bonds until the amount were advance refunded on October 4, 2004. The entire amount of the Series 1996 Bonds were refunded on July 29, 2004.

On July 29, 2004, the Hospital issued \$1.205 million in General Obligation Bonds with interest rates ranging from 5.8% to 8% to advance refund \$2.2 million of outstanding 1999 Revenue Bonds. The net proceeds of \$1.2 million (after payment of underwriting fees, insurance, and other issuance costs) plus an additional \$1 million of existing debt service reserve monies were deposited in an irrevocable trust with an escrow agent to provide for the advance refunding on July 29, 2004.

Interest on the general obligation bonds is payable semi-annually on March 1 and September 1 each year. The bonds mature in annual installments on March 1 each year until 2024. The bonds can be called for early redemption after March 1, 2014.

Hospital Indebtedness Obligations—On July 27, 2005, the Hospital issued \$10 million of Hospital Indebtedness Obligations to finance the cost of constructing, acquiring, and/or improving hospital facilities and equipment for the Hospital. The Obligations bear rates ranging from 3.45% to 4.1% and are payable in annual installments through July 1, 2015. The Obligations are not callable for redemption prior to their stated maturity dates. The obligations are secured by a pledge of the net income, revenues and receipts of the Hospital.

Notes Payable to Physicians—On March 1, 1999, the Hospital acquired all the membership rights of Slidell Radiation Center, a nonprofit membership corporation. The Hospital issued \$1,700,000 in notes payable which bear an annual interest rate of 7% and are payable in annual installments of principal and interest of approximately \$170,000 over a period of ten years.

Combined Debt Service Commitments—Principal and interest payments due on general obligation bonds and notes payable are as follows:

Years Ended December 31	Principal	Interest
2006	\$ 1,665,000	\$ 1,426,728
2007	1,805,000	1,385,200
2008	1,885,000	1,311,372
2009	1,965,000	1,164,190
2010	1,890,000	1,086,378
2011-2015	10,825,000	4,161,890
2016-2020	6,655,000	2,214,443
2021-2024	5,945,000	556,793
Total	<u>\$32,635,000</u>	<u>\$ 13,306,994</u>

8. EMPLOYEE BENEFITS

The Hospital and its member organizations maintained a qualified noncontributory defined contribution pension plan which provided pension benefits for eligible employees through March of 2002. Beginning in April of 2002, the Hospital began a combination deferred compensation and contributory employee savings plan for full-time employees. Each employee's interest in the existing plan is fully vested and was transferred over to the new plan. The new pension plan provides an employer match of employee contributions (up to 8%) rather than contributions based on salaries. Employees are eligible to participate at their date of hire.

Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the Hospital's contribution is based on years of service. The following vesting schedule is in effect:

Years of Vesting Service	Percent Vested
1	20 %
2	40
3	60
4	80
5	100

The total payroll for the years ended December 31, 2005 and 2004 was \$39,942,036 and \$35,553,138, respectively. During the years ended December 31, 2005 and 2004, the Hospital and member organizations made required contributions to the Plan of \$1,042,762 and \$919,775, respectively.

9. RISK MANAGEMENT

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. The Hospital participates in the Louisiana Hospital Association Trust Fund ("LHA Trust Fund") and the Louisiana Patients' Compensation Fund ("Compensation Fund") for insurance coverage on medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability which provides that no award can be rendered against it in excess of \$500,000, plus interest and costs. The LHA Trust Fund provides malpractice coverage for claims up to \$100,000 and the Compensation Fund provides an additional \$400,000 of coverage. These funds provide the Hospital with malpractice coverage on an occurrence basis up to the \$500,000 statutory limitation. Hospital management has no reason to believe that the Hospital will be prevented from continuing its participation in the Fund. LHA Trust Fund insures general liability up to \$1,000,000 per claim. LHA Trust Fund insures excess general liability claims in excess of \$1,000,000 but limited to \$9,000,000 per claim. At December 31, 2005, there were no malpractice accruals, and the Hospital is fully insured based on the statutory limits. Additional claims may be asserted against the Hospital arising from services provided to patients through December 31, 2005, exceeding these coverage limits. The Hospital is unable to determine the ultimate cost of the resolution of such potential claims and, accordingly, no accrual has been made for them.

The Hospital is self-insured for workers' compensation up to \$300,000 per claim, and employee health up to \$120,000 per claim. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors. The Hospital carries commercial insurance which provides coverages for workers' compensation and employee health claims in excess of the self-insured limits.

Changes in the Hospital's aggregate claims liability for workers' compensation and employee health for the years ended December 31, 2005 and 2004, were as follows:

Years Ended December 31	Beginning of Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Year-End
2005	\$ 747,049	\$ 6,033,911	\$ 6,106,967	\$ 673,993
2004	926,979	7,478,743	7,658,403	747,049

10. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third party payor agreements. The mix of receivables from patients and third party payors net of contractual allowances at December 31, 2005 and 2004, was as follows:

	2005	2004
Medicare	15 %	12 %
Medicaid	2	2
Insurance managed care	34	31
Patients	47	54
Other	<u>2</u>	<u>1</u>
Total	<u>100 %</u>	<u>100 %</u>

11. CHANGES IN CAPITAL ASSETS

Capital asset activity for the fiscal year ended December 31, 2005, was as follows:

	Balance December 31, 2004	Additions	Deletions	Balance December 31, 2005
Capital assets not being depreciated:				
Land	\$ 3,597,713	\$ -	\$ -	\$ 3,597,713
Construction in process	<u> </u>	<u>1,349,805</u>	<u> </u>	<u>1,349,805</u>
Total capital assets not being depreciated	<u>3,597,713</u>	<u>1,349,805</u>	<u>-</u>	<u>4,947,518</u>
Capital assets being depreciated:				
Land improvements	1,077,870			1,077,870
Buildings	62,206,609	539,107	106,686	62,639,030
Equipment	<u>47,965,563</u>	<u>8,988,179</u>	<u>960,369</u>	<u>55,993,373</u>
Total capital assets being depreciated	<u>111,250,042</u>	<u>9,527,286</u>	<u>1,067,055</u>	<u>119,710,273</u>
Less accumulated depreciation for:				
Land improvements	859,557	27,843		887,400
Buildings	33,417,909	2,616,698	40,309	35,994,298
Equipment	<u>38,731,120</u>	<u>3,114,685</u>	<u>844,215</u>	<u>41,001,590</u>
Total accumulated depreciation	<u>73,008,586</u>	<u>5,759,226</u>	<u>884,524</u>	<u>77,883,288</u>
Capital assets being depreciated—net	<u>38,241,456</u>	<u>3,768,060</u>	<u>182,531</u>	<u>41,826,985</u>
Total	<u>\$ 41,839,169</u>	<u>\$ 5,117,865</u>	<u>\$ 182,531</u>	<u>\$ 46,774,503</u>

12. IMPACT OF HURRICANES

The 2005 hurricane season proved to be the most active in recent times and caused more disruption than ever experienced in the Greater New Orleans area.

In the third quarter of 2005, the Hospital's operations were affected by Tropical Storm Cindy (July 6, 2005), Hurricane Dennis (July 10, 2005), and Hurricane Katrina (August 29, 2005). Tropical Storm Cindy and Hurricane Katrina made direct landfall over the Hospital's service area, with Katrina causing catastrophic damage and flooding, particularly in Slidell, New Orleans, and the surrounding areas. Much of the population evacuated for Katrina, and many were not able to return during September due to the widespread devastation.

The Hospital's main campus hospital in Slidell sustained water and wind damage and curtailed operations until the damages could be mitigated and a safe environment could be established. The hurricane also disrupted patient patterns and caused an increase in indigent patients and uncompensated care.

As of December 31, 2005, the Hospital had received \$1,181,944 of proceeds from the Federal Emergency Management Authority related to expenses incurred due to the Hurricane. Also, the Hospital has business interruption coverage and is in the process of filing a claim. Amounts recoverable under business interruption insurance will be recognized as revenue as such funds are received.

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ADDITIONAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Members of the Board of Commissioners of
St. Tammany Parish Hospital Service District No. 2:

Our audits were conducted for the purpose of forming an opinion on the basic consolidated 2005 and 2004 financial statements taken as a whole. The following additional information, as listed on the table of contents, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. This information is the responsibility of St. Tammany Parish Hospital Service District No. 2's management. Such information, except for the page marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Deloitte & Touche LLP

March 30, 2006

SLIDELL MEMORIAL HOSPITAL

CONSOLIDATING SCHEDULE—BALANCE SHEET INFORMATION AS OF DECEMBER 31, 2005

	Consolidated	Eliminations	Slidell Memorial Hospital	Slidell Memorial Health Foundation, Inc.	SMH Physician Practice Services, Inc.	Slidell Radiation Center, Inc.
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 11,061,474	\$ -	\$ 11,017,668	\$ 801	\$ 3,838	\$ 39,167
Patient accounts receivable—net	17,014,852		17,002,181		12,671	
Assets whose use is limited—required for current liabilities	1,091,523		1,091,523			
Inventories	2,136,240	(6,585,187)	2,126,325	459	9,456	
Intercompany receivables			6,585,187			
Prepaid expenses and other receivables	3,108,503		3,059,934	46,815	1,754	
Total current assets	34,412,592	(6,585,187)	40,882,818	48,075	27,719	39,167
ASSETS WHOSE USE IS LIMITED OR RESTRICTED—By board or under agreements for capital improvements, by debt service, by donors and by use	14,822,035		14,787,747	34,288		
CAPITAL ASSETS:						
Land and improvements	4,675,583		4,675,583			
Buildings	62,639,030		62,639,030			
Equipment	55,993,373		55,738,583		61,790	193,000
Construction in progress	1,349,805		1,349,805			
Less accumulated depreciation and amortization	(77,883,288)		(77,684,440)		(40,062)	(158,786)
Capital assets—net	46,774,503	-	46,718,561	-	21,728	34,214
OTHER ASSETS:						
Investment in affiliated organizations		(73,381)	73,381			
Bond issuance costs—net	176,079		176,079			
Total other assets	176,079	(73,381)	249,460	-	-	-
TOTAL	\$ 96,185,209	\$ (6,658,568)	\$ 102,638,586	\$ 82,363	\$ 49,447	\$ 73,381

SLIDELL MEMORIAL HOSPITAL

CONSOLIDATING SCHEDULE—BALANCE SHEET INFORMATION AS OF DECEMBER 31, 2005

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Trade accounts payable
Intercompany payables
Salaries, wages, and benefits payable
Accrued vacation payable
Accrued interest and other expenses
Amounts due to third-party payors
Amounts due within one year on capital lease obligations
and long-term debt

Total current liabilities

CAPITAL LEASE OBLIGATIONS—Less amounts due within one year

LONG-TERM DEBT—Less amounts due within one year

NET ASSETS:

Invested in capital assets—net of related debt
Restricted for debt service and workers compensation
Unrestricted (deficit)

Total net assets

TOTAL

	Consolidated	Eliminations	Slidell Memorial Hospital	Slidell Memorial Health Foundation, Inc.	SMH Physician Practice Services, Inc.	Slidell Radiation Center, Inc.
	\$ 4,843,415	\$ -	\$ 4,843,415	\$ -	\$ -	\$ -
		(6,585,187)		691,464	5,893,723	
	1,545,538		1,545,538			
	1,835,702		1,835,702			
	2,746,313		2,743,696		2,617	
	2,129,803		2,129,803			
	1,855,263		1,855,263			
	1,665,000		1,665,000			
	<u>16,621,034</u>	<u>(6,585,187)</u>	<u>16,618,417</u>	<u>691,464</u>	<u>5,896,340</u>	<u>-</u>
	<u>6,879,955</u>	<u>-</u>	<u>6,879,955</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>30,970,000</u>	<u>-</u>	<u>30,970,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
	15,917,042		15,917,042			
	2,382,806		2,382,806			
	<u>23,414,372</u>	<u>(73,381)</u>	<u>29,870,366</u>	<u>(609,101)</u>	<u>(5,846,893)</u>	<u>73,381</u>
	<u>41,714,220</u>	<u>(73,381)</u>	<u>48,170,214</u>	<u>(609,101)</u>	<u>(5,846,893)</u>	<u>73,381</u>
	<u>\$ 96,185,209</u>	<u>\$ (6,658,568)</u>	<u>\$ 102,638,586</u>	<u>\$ 82,363</u>	<u>\$ 49,447</u>	<u>\$ 73,381</u>

(Concluded)

SLIDELL MEMORIAL HOSPITAL

CONSOLIDATING SCHEDULE—REVENUE, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2005

	Consolidated	Eliminations	Slidell Memorial Hospital	Slidell Memorial Health Foundation, Inc.	SMH Physician Practice Services, Inc.	Slidell Radiation Center, Inc.
REVENUE:						
Net patient service revenue	\$ 97,618,168	\$ (217)	\$ 97,057,725	\$ 155,228	\$ 405,215	\$ 217
Other revenue	<u>2,372,930</u>		<u>2,367,730</u>	<u>5,200</u>		
Total revenue	<u>99,991,098</u>	<u>(217)</u>	<u>99,425,455</u>	<u>160,428</u>	<u>405,215</u>	<u>217</u>
OPERATING EXPENSES:						
Salaries and wages	39,942,036		39,511,117	121,654	309,265	
Employee benefits	9,036,924		9,011,324	8,076	17,524	
Supplies and materials	21,790,651		21,774,378	3,549	12,724	
Other direct expenses	10,381,603		10,309,899	13,348	58,356	
Professional fees	6,963,285		6,962,970	315	43,016	
Purchased services	3,948,957		3,905,941		2,756	
Depreciation and amortization	<u>5,744,443</u>	<u>(27,572)</u>	<u>5,741,687</u>			<u>27,572</u>
Total operating expenses	<u>97,807,899</u>	<u>(27,572)</u>	<u>97,217,316</u>	<u>146,942</u>	<u>443,641</u>	<u>27,572</u>
OPERATING INCOME	<u>2,183,199</u>	<u>27,355</u>	<u>2,208,139</u>	<u>13,486</u>	<u>(38,426)</u>	<u>(27,355)</u>
NONOPERATING REVENUES (EXPENSES):						
Interest income	749,921		746,600	2,318	1,003	
Interest expense	<u>(1,643,229)</u>		<u>(1,643,229)</u>			
Property tax revenue	<u>1,552,133</u>		<u>1,552,133</u>			
Total nonoperating revenues (expenses)	<u>658,825</u>		<u>655,504</u>	<u>2,318</u>	<u>1,003</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	<u>2,842,024</u>	<u>27,355</u>	<u>2,863,643</u>	<u>15,804</u>	<u>(37,423)</u>	<u>(27,355)</u>
NET ASSETS (DEFICIT)—Beginning of year	<u>38,872,196</u>	<u>(100,736)</u>	<u>45,306,571</u>	<u>(624,905)</u>	<u>(5,809,470)</u>	<u>100,736</u>
NET ASSETS (DEFICIT)—End of year	<u>\$ 41,714,220</u>	<u>\$ (73,381)</u>	<u>\$ 48,170,214</u>	<u>\$ (609,101)</u>	<u>\$ (5,846,893)</u>	<u>\$ 73,381</u>

Notes: The operations of Slidell Radiation Center, Inc. are included in the operating revenues and expenses of the Hospital.

SLIDELL MEMORIAL HOSPITAL

ADDITIONAL INFORMATION—SCHEDULES OF HOSPITAL DEPARTMENTAL GROSS MARGIN FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005				2004			
	Charges	Direct Operating Expenses	Charges Over Direct Expenses	Gross Margin	Charges	Direct Operating Expenses	Charges Over Direct Expenses	Gross Margin
ROUTINE SERVICES:								
Medical and surgical	\$ 25,822,120	\$ 7,996,408	\$ 17,825,712	69.0 %	\$ 23,749,390	\$ 6,975,358	\$ 16,774,032	70.6 %
Intensive and intermediate care	10,910,669	2,978,035	7,932,634	72.7	9,715,343	2,518,322	7,197,021	74.1
Nursery and NICU	2,299,579	1,497,060	802,519	34.9	3,064,489	1,588,881	1,475,608	48.2
Long-term care	2,106,074	857,198	1,248,876	59.3	2,304,852	873,916	1,430,936	62.1
	<u>41,138,442</u>	<u>13,328,701</u>	<u>27,809,741</u>	67.6	<u>38,834,074</u>	<u>11,956,477</u>	<u>26,877,597</u>	69.2
ANCILLARY SERVICES:								
Anesthesiology	15,965,628	4,542,664	11,422,964	71.5	14,672,925	4,270,262	10,402,663	70.9
Cardiac catheterization	29,680,347	4,131,963	25,548,384	86.1	25,996,776	3,430,269	22,566,507	86.8
Cardiology	7,586,398	618,709	6,967,689	91.8	7,347,091	545,173	6,801,918	92.6
CT Scan/MRI	26,574,649	1,483,337	25,091,312	94.4	24,673,533	1,375,153	23,298,380	94.4
Central services	42,863		42,863	100.0	30,894		30,894	100.0
Delivery room	4,626,385	1,236,793	3,389,592	73.3	4,513,758	1,172,730	3,341,028	74.0
Emergency room	21,964,749	5,200,228	16,764,521	76.3	23,191,241	4,645,289	18,545,952	80.0
Endoscopy	9,646,291	1,971,993	7,674,298	79.6	9,102,301	1,957,342	7,144,959	78.5
Hyperbaric oxygen	351,132	57,929	293,203	83.5	692,277	137,112	555,165	80.2
Laboratory	44,860,002	4,212,955	40,647,047	90.6	41,155,080	3,739,222	37,415,858	90.9
Nuclear medicine	6,403,185	608,497	5,794,688	90.5	6,389,071	609,114	5,779,957	90.5
Operating and recovery	60,621,639	9,299,269	51,322,370	84.7	58,316,905	8,801,034	49,515,871	84.9
Pharmacy	50,810,684	6,915,874	43,894,810	86.4	43,987,544	6,020,193	37,967,351	86.3
Physical therapy	8,039,673	1,680,900	6,358,773	79.1	8,740,720	1,709,470	7,031,250	80.4
Radiation oncology	9,265,088	1,968,947	7,296,141	78.7	6,459,637	1,512,407	4,947,230	76.6
Radiology	11,503,166	2,250,532	9,252,634	80.4	10,264,598	2,151,063	8,113,535	79.0
Respiratory therapy	20,790,764	2,140,702	18,650,062	89.7	18,283,705	1,840,812	16,442,893	89.9
Ultrasound	3,428,050	351,946	3,076,104	89.7	3,341,307	358,519	2,982,788	89.3
	<u>332,160,693</u>	<u>48,673,238</u>	<u>283,487,455</u>		<u>307,159,363</u>	<u>44,275,164</u>	<u>262,884,199</u>	
	373,299,135	<u>\$ 62,001,939</u>	311,297,196		345,993,437	<u>\$ 56,231,641</u>	289,761,796	
PROVISION FOR CHARITY AND CONTRACTUAL ALLOWANCES	(262,447,965)		(262,447,965)		(240,805,971)		(240,805,971)	
PROVISION FOR BAD DEBTS	(13,793,440)		(13,793,440)		(10,267,247)		(10,267,247)	
NET PATIENT SERVICE REVENUE	<u>\$ 97,057,730</u>				<u>\$ 94,920,219</u>			
OTHER REVENUE			3,114,330				2,482,633	
			<u>38,170,121</u>				<u>51,438,458</u>	
EXPENSES:								
General services			(6,364,920)				(6,187,795)	
Fiscal and administrative services			(23,108,770)				(23,694,757)	
Depreciation and amortization			(5,741,687)				(6,456,344)	
Interest expense			(1,643,229)				(1,986,621)	
Nonoperating revenues (expenses), net			<u>1,552,133</u>				<u>781,171</u>	
EXCESS OF REVENUES OVER EXPENSES			<u>\$ 2,863,648</u>				<u>\$ 3,626,865</u>	

SLIDELL MEMORIAL HOSPITAL

ADDITIONAL INFORMATION—SCHEDULES OF HOSPITAL PATIENT SERVICE CHARGES FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005			2004			Percentage of Charges to Total Department Charges
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total	
ROUTINE SERVICES:							
Medical and surgical	\$ 25,138,862	\$ 683,258	\$ 25,822,120	\$ 22,910,271	\$ 839,119	\$ 23,749,390	62.8 %
Intensive and intermediate care	10,889,167	21,502	10,910,669	9,682,707	32,636	9,715,343	26.5
Nursery and NICU	2,299,579		2,299,579	3,064,489		3,064,489	5.6
Long-term care	2,106,074		2,106,074	2,304,852		2,304,852	5.1
	<u>40,433,682</u>	<u>704,760</u>	<u>41,138,442</u>	<u>37,962,319</u>	<u>871,755</u>	<u>38,834,074</u>	<u>100 %</u>
ANCILLARY SERVICES:							
Anesthesiology	11,599,225	4,366,403	15,965,628	10,419,084	4,253,841	14,672,925	4.8 %
Cardiac catheterization	22,782,581	6,897,766	29,680,347	21,587,851	4,408,925	25,996,776	8.9
Cardiology	3,733,403	3,852,995	7,586,398	3,241,597	4,105,494	7,347,091	2.3
CT Scan/MRI	7,869,947	18,704,702	26,574,649	6,895,613	17,777,920	24,673,533	8.0
Central services	42,863		42,863	30,894		30,894	0.0
Delivery room	3,817,380	809,005	4,626,385	3,729,569	784,189	4,513,758	1.4
Emergency room	4,699,088	17,265,661	21,964,749	5,185,066	18,006,175	23,191,241	6.6
Endoscopy	2,206,930	7,439,361	9,646,291	1,781,549	7,320,752	9,102,301	2.9
Hyperbaric oxygen	61,358	289,774	351,132	132,914	559,363	692,277	0.1
Laboratory	26,581,085	18,278,917	44,860,002	23,201,967	17,953,113	41,155,080	13.5
Nuclear medicine	2,832,110	3,571,075	6,403,185	2,667,467	3,721,604	6,389,071	1.9
Operating and recovery	38,464,107	22,157,532	60,621,639	35,382,818	22,934,087	58,316,905	18.3
Pharmacy	37,976,243	12,834,441	50,810,684	33,394,475	10,593,069	43,987,544	15.3
Physical therapy	4,594,503	3,445,170	8,039,673	4,560,450	4,180,270	8,740,720	2.4
Radiation oncology		9,265,083	9,265,083		6,459,637	6,459,637	2.8
Radiology	3,705,184	7,797,982	11,503,166	3,631,866	6,632,732	10,264,598	3.5
Respiratory therapy	17,679,021	3,111,743	20,790,764	15,522,046	2,761,659	18,283,705	6.3
Ultrasound	1,157,574	2,270,476	3,428,050	1,022,034	2,319,273	3,341,307	1.0
	<u>189,802,602</u>	<u>142,358,086</u>	<u>332,160,688</u>	<u>172,387,260</u>	<u>134,772,103</u>	<u>307,159,363</u>	<u>100 %</u>
	<u>\$230,236,284</u>	<u>\$143,062,846</u>	<u>\$373,299,130</u>	<u>\$210,349,579</u>	<u>\$135,643,858</u>	<u>\$345,993,437</u>	<u>100 %</u>

SLIDELL MEMORIAL HOSPITAL

ADDITIONAL INFORMATION—SCHEDULES OF HOSPITAL OPERATING EXPENSES FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005				2004				Percentage of Departmental Expenses to Total Expenses
	Salaries, Wages and Benefits	Supplies and Materials	Other Direct Expenses	Total	Salaries, Wages and Benefits	Supplies and Materials	Other Direct Expenses	Total	
ROUTINE SERVICES:									
Medical and surgical Intensive and intermediate care	\$ 7,495,924	\$ 441,037	\$ 59,447	\$ 7,996,408	\$ 6,487,370	\$ 420,187	\$ 67,801	\$ 6,975,358	60.0 % 58.3 %
Nursery and NICU	2,749,946	203,430	24,559	2,978,035	2,336,540	161,301	20,481	2,518,322	22.30 21.1
Long-term care	1,365,556	67,255	64,249	1,497,060	1,289,422	71,462	227,997	1,588,881	11.2 13.3
	708,276	21,798	127,124	857,198	716,344	23,441	134,131	873,916	6.4 7.3
	<u>\$12,319,702</u>	<u>\$ 733,520</u>	<u>\$ 275,479</u>	<u>\$13,328,701</u>	<u>\$10,829,676</u>	<u>\$ 676,391</u>	<u>\$ 450,410</u>	<u>\$11,956,477</u>	<u>100 % 100 %</u>
ANCILLARY SERVICES:									
Anesthesiology	\$ 1,911,041	\$ 313,669	\$2,317,954	\$ 4,542,664	\$ 1,857,347	\$ 245,699	\$2,167,216	\$ 4,270,262	9.3 % 9.6 %
Cardiac catheterization	556,441	3,431,070	144,452	4,131,963	480,224	2,799,420	150,625	3,430,269	8.5 7.7
Cardiology	578,455	24,489	15,765	618,709	485,324	26,402	33,447	545,173	1.3 1.2
CT Scan/MRI	710,529	336,242	436,566	1,483,337	712,399	341,833	320,921	1,375,153	3.0 3.1
Delivery room	1,081,207	125,974	29,612	1,236,793	992,154	134,184	46,392	1,172,730	2.5 2.7
Emergency room	2,508,286	330,770	2,361,172	5,200,228	2,063,422	271,563	2,310,304	4,645,289	10.7 10.5
Endoscopy	1,497,634	185,961	288,398	1,971,993	1,451,581	217,544	288,217	1,957,342	4.1 4.4
Hyperbaric oxygen		3,693	54,236	57,929		4,643	132,469	137,112	0.1 0.3
Laboratory	1,681,377	1,802,550	729,028	4,212,955	1,495,403	1,527,067	716,752	3,739,222	8.7 8.4
Nuclear medicine	213,407	325,258	69,832	608,497	173,994	369,988	65,132	609,114	1.3 1.4
Operating and recovery	2,036,251	6,521,265	741,753	9,299,269	1,918,678	6,063,034	819,322	8,801,034	19.1 19.9
Pharmacy	875,807	5,765,908	274,159	6,915,874	784,687	4,953,465	282,041	6,020,193	14.2 13.6
Physical therapy	1,555,787	86,803	38,310	1,680,900	1,556,052	98,417	55,001	1,709,470	3.5 3.9
Radiation oncology	401,553	12,613	1,554,781	1,968,947	356,921	10,926	1,144,560	1,512,407	4.0 3.4
Radiology	1,642,632	363,588	244,312	2,250,532	1,510,160	357,888	283,015	2,151,063	4.6 4.9
Respiratory therapy	1,579,405	237,041	324,256	2,140,702	1,352,281	228,632	259,899	1,840,812	4.4 4.2
Ultrasound	329,305	9,725	12,916	351,946	304,076	9,798	44,645	358,519	0.7 0.8
	<u>\$19,159,117</u>	<u>\$19,876,619</u>	<u>\$9,637,502</u>	<u>\$48,673,238</u>	<u>\$17,494,703</u>	<u>\$17,660,503</u>	<u>\$9,119,958</u>	<u>\$44,275,164</u>	<u>100 % 100 %</u>

(Continued)

SLIDELL MEMORIAL HOSPITAL

ADDITIONAL INFORMATION—SCHEDULES OF HOSPITAL OPERATING EXPENSES FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005				2004				Percentage of Departmental Expenses to Total Expenses 2005	2004
	Salaries, Wages and Benefits	Supplies and Materials	Other Direct Expenses	Total	Salaries, Wages and Benefits	Supplies and Materials	Other Direct Expenses	Total		
GENERAL SERVICES:										
Dietary	\$ 856,275	\$ 818,064	\$ 170,479	\$ 1,844,818	\$ 671,595	\$ 795,437	\$ 168,133	\$ 1,635,165	29.0 %	26.4 %
Housekeeping	811,694	137,020	834,505	1,783,219	773,304	107,811	783,198	1,664,313	28.0	26.9
Maintenance	541,708	119,962	737,363	1,399,033	484,620	117,789	1,057,976	1,660,385	22.0	26.8
Security	143,952	1,028	3,708	148,688	133,799	187	11,278	145,264	2.3	2.4
Utilities			1,189,162	1,189,162			1,082,668	1,082,668	18.7	17.5
	<u>\$ 2,353,629</u>	<u>\$ 1,076,074</u>	<u>\$ 2,935,217</u>	<u>\$ 6,364,920</u>	<u>\$ 2,063,318</u>	<u>\$ 1,021,224</u>	<u>\$ 3,103,253</u>	<u>\$ 6,187,795</u>	<u>100 %</u>	<u>100 %</u>
FISCAL AND ADMINISTRATIVE SERVICES:										
Accounting	\$ 434,947	\$ 4,051	\$ 13,238	\$ 452,236	\$ 436,847	\$ 3,335	\$ 11,741	\$ 451,923	2.0 %	1.9 %
Administration	1,435,421	10,390	381,144	1,826,955	1,196,724	11,055	361,681	1,569,460	7.9	6.6
Admitting	692,840	14,473	72,551	779,864	532,279	21,851	233,790	787,920	3.4	3.3
Business office	827,701	12,019	182,433	1,022,153	396,896	18,219	2,146,346	2,561,461	4.4	10.8
Case management	578,057	1,607	4,163	583,827	477,164	1,077	2,896	481,137	2.5	2.0
Central Services	298,457	(30,845)	174,945	442,557	309,011	(250,538)	198,510	256,983	1.9	1.1
Fitness Center	235,803	388	22,392	258,583	277,152	534	8,045	285,731	1.1	1.2
Human resources	204,364	1,687	231,362	437,413	184,954	5,530	246,503	436,987	1.9	1.9
Information systems	766,090	12,362	1,631,035	2,409,487	729,400	9,175	1,424,719	2,163,294	10.4	9.1
Medical records	864,235	21,480	130,537	1,016,252	839,677	25,310	104,627	969,614	4.4	4.1
Medical review services	140,506	3,678	15,390	159,574	151,841	2,291	7,088	161,220	0.7	0.7
Patient care services	833,748	5,515	24,740	864,003	842,895	6,676	19,345	869,116	3.7	3.7
Physician recruitment and staff relations	105,379	1,880	178,780	286,039	74,968	1,304	78,665	154,937	0.0	0.7
Property management	276,105	16,692	594,139	886,936	205,557	11,161	598,858	815,576	3.8	3.4
Public relations	321,580	3,869	535,562	861,011	269,283	7,498	544,929	821,710	3.7	3.5
Purchasing	271,666	2,713	219,670	494,049	220,433	1,972	139,114	361,519	2.1	1.5
Training and development	91,135	6,206	67,958	165,299	73,969	12,435	41,734	128,138	0.7	0.5
Collection agency fees			217,652	217,652			193,399	193,399	0.9	0.8
Directors' expenses			17,776	17,776			19,344	19,344	0.1	0.1
Insurance expenses	5,269,196		2,078,183	7,347,379	5,774,135		1,942,315	7,716,450	31.8	32.6
Pension and retirement	1,042,763			1,042,763	919,777			919,777	4.5	3.9
Postage			207,062	207,062			238,845	238,845	0.9	1.0
Professional fees			1,068,656	1,068,656			1,115,901	1,115,901	4.6	4.7
Telephone			261,244	261,244			214,315	214,315	1.1	0.9
	<u>\$ 14,689,993</u>	<u>\$ 88,165</u>	<u>\$ 8,330,612</u>	<u>\$ 23,108,770</u>	<u>\$ 13,912,962</u>	<u>\$ (111,115)</u>	<u>\$ 9,892,910</u>	<u>\$ 23,694,757</u>	<u>100 %</u>	<u>100 %</u>

(Concluded)

SLIDELL MEMORIAL HOSPITAL

ADDITIONAL INFORMATION—SCHEDULES OF HOSPITAL OTHER REVENUE FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Rental income	\$ 1,249,271	\$ 1,261,300
Cafeteria sales	375,127	294,927
Vendor discounts	47,533	47,318
Fitness center revenue	153,062	240,271
Other revenue	613,392	388,697
Loss of subsidiary	(29,406)	(27,369)
Loss on sale of assets	<u>(41,249)</u>	<u>(61,577)</u>
Total	<u>\$2,367,730</u>	<u>\$2,143,567</u>

SLIDELL MEMORIAL HOSPITAL

ADDITIONAL INFORMATION—SCHEDULE OF HOSPITAL CAPITAL ASSETS FOR THE YEAR ENDED DECEMBER 31, 2005

	Assets			Accumulated Depreciation		
	January 1, 2005	Additions	Transfers and Deductions	January 1, 2005	Additions	Transfers and Deductions
Land	\$ 3,597,713	\$ -	\$ -	\$ -	\$ -	\$ -
Land improvements	1,077,870			859,557	27,843	887,400
Buildings	62,206,609	539,107	106,686	33,417,909	2,616,698	35,994,298
Equipment	47,726,853	8,972,099	960,369	38,562,600	3,084,357	40,802,742
Construction in process		1,349,805				
	<u>\$ 114,609,045</u>	<u>\$ 10,861,011</u>	<u>\$ 1,067,055</u>	<u>\$ 72,840,066</u>	<u>\$ 5,728,898</u>	<u>\$ 884,524</u>
						<u>\$ 77,684,440</u>

SLIDELL MEMORIAL HOSPITAL

ADDITIONAL INFORMATION—SCHEDULES OF HOSPITAL STATISTICS (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Average census (patients)	108	106
Percentage of occupancy (based on 173 beds)	62.6 %	61.3 %
Average length of stay (acute care patients)	4.5	4.4
Patient days:		
Routine	31,520	30,314
ICU	4,427	4,247
NICU	766	941
Rehabilitation	<u>2,823</u>	<u>3,281</u>
	<u>39,536</u>	<u>38,783</u>
Adjusted patient admissions (*)	14,474	13,872
Adjusted patient days (*)	68,544	63,918
Total number of admissions	8,379	8,406
Total number of admissions (acute care only)	8,171	8,116
Total number of discharges	8,462	8,494
Patient mix based on charges:		
Medicare	40.2 %	38.8 %
Medicaid	7.2 %	9.9 %
Commercial insurance	2.7 %	2.3 %
Managed care	42.7 %	43.0 %
Private pay and other	7.2 %	6.0 %
Total surgical procedures:		
Inpatient	1,831	1,760
Outpatient	<u>2,518</u>	<u>2,661</u>
	<u>4,349</u>	<u>4,421</u>
Emergency visits	24,787	24,835
Full-time equivalents at year end	823.6	764.4

(*) Inpatient days increased for equivalent outpatient volume.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board of Commissioners
St. Tammany Parish Hospital Service District No. 2
Slidell, Louisiana

We have audited the financial statements of St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital) (the "Hospital"), as of and for the year ended December 31, 2005, and have issued our report thereon dated March 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Commissioners, management, and the State of Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Deloitte & Touche LLP

March 30, 2006